



**CCRC**  
Actuaries, LLC

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**STATE OF WEST  
VIRGINIA**

**PUBLIC EMPLOYEES  
INSURANCE AGENCY**

**Quarterly Report  
December 31, 2004**

**Fiscal Years  
2005 - 2009**

*March 2005*



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Finance Board  
West Virginia Public Employees Insurance Agency  
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Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC (“CCRC Actuaries”).

CCRC Actuaries has been retained by the Finance Board (“Board”) of the West Virginia Public Employees Insurance Agency (“Agency”) to assist it as provided under the West Virginia Public Employees Insurance Act (“Act”) as amended by Senate Bill 702 in 1998. As provided under the Act, the Board has retained CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2005 (“FY 2005”) and to provide quarterly financial reports. In addition, the analysis is to include reporting on a projection period of five years and to include an accrual and incurred basis. Accordingly, CCRC Actuaries has additionally provided preliminary forecasts for the fiscal years ending June 30, 2006 (“FY 2006”), June 30, 2007 (“FY 2007”), June 30, 2008 (“FY 2008”), and June 30, 2009 (“FY 2009”). This opinion of plan adequacy is based on the projections through FY 2009, using updated future revenue and plan modifications provided by the Finance Board in the plan adopted in December 2004.

Under the Act, it is the Board’s responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the Act, the Board must provide a financing plan in which the State Fund revenue costs are financed 80% by State employers and 20% by State employees in FY 2007. This calculation is mandated by the PEIA enabling legislation to include all revenue contributed by State employers and State employees. It is also the Board’s responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2009.

It should be noted that the projections in this report include substantial anticipated savings from the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D"). CCRC Actuaries has projected potential savings to PEIA based on the various options available in Medicare Part D. While the PEIA Finance Board has not decided on which option to pursue, we believe the projected savings represent the minimum savings available to PEIA based on the information currently available. We have assumed that Part D will save PEIA approximately \$8,000,000 in Fiscal Year 2006 and \$20,000,000 in Fiscal Year 2007 and increasing thereafter depending on Medicare enrollment and prescription drug inflation.

The Medicaid/PEIA Hospital Bill has been extended for three additional years and is anticipated to result in PEIA hospital savings of approximately \$12,000,000 in Fiscal Year 2005. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

In preparing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that with the adoption of the new financial plan in early December, PEIA is projected to have sufficient reserves to meet the legislatively required 10% of plan expenses through Fiscal Year 2008, however we are projecting an insufficient reserve level of 9% in Fiscal Year 2009. The Finance Board should monitor the reserve closely to judge if it should be addressed.

In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2005 through FY 2009 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. In addition, we are forecasting that PEIA will meet the 80%/20% cost share requirement for State revenue in FY 2007 based on the scheduled revenue increases of the current financial plan approved by the Finance Board in December 2004. It should be noted that this conclusion is based on significant revenue increases in employer and employee premiums through FY 2009 as approved by the Board in December 2004 for Fiscal Years 2005 through 2009.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. This report contemplates significant financial savings impact resulting from the implementation of Medicare Part D, which will be effective January 1, 2006. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drug options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.



Dave Bond, F.S.A., M.A.A.A.  
Managing Partner



Bradley Paulis  
Reviewing Partner

# **West Virginia Public Employees Insurance Agency**

## **Report of Independent Actuary**

### **December 31, 2004 Quarterly Report**

#### **OVERVIEW**

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their dependents. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled, based upon claims data collected by PEIA's third party administrators through January 2005 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate total revenue levels.

## **KEY ASSUMPTIONS**

### **A. Enrollment Changes**

These projections include the assumption that Preferred Provider Benefit and Managed Care enrollment will not change from the February 2005 enrollment for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. While we have recently observed an increase of 1,096 retirees from June 2004 to February 2005 in PPB coverage, we note that from June 2002 through June 2004, the average annual increase in retirees was 977.

In aggregate, February 2005 enrollment has increased by 1,123 coverages since the end of FY 2004. The most significant enrollment changes in February 2005 since FY 2004 include an increase of 1,072 total retiree coverages. In the State Fund there has been a transfer of coverage from managed care to PPB coverage with overall enrollment increasing by 90 coverages from the end of FY 2004 to February 2005. The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2003, June 2004 and February 2005 for purposes of comparison:

PEIA Fund	Coverage	Preferred Provider Benefit			Managed Care		
		Jun-03	Jun-04	Feb-05	Jun-03	Jun-04	Feb-05
State Active	Single	17,777	17,915	18,781	3,924	4,015	3,479
	Children	4,814	4,688	4,795	840	899	693
	Family	31,001	30,490	31,059	5,090	5,093	4,383
	Total	53,592	53,093	54,635	9,854	10,007	8,555
Local Active	Single	3,371	3,438	3,505	329	386	373
	Children	566	576	575	147	175	161
	Family	4,223	4,490	4,417	138	111	106
	Total	8,160	8,504	8,497	614	672	640
Retirees	Medicare Single	15,003	15,513	15,784	-	-	-
	Medicare Family	8,315	8,748	9,000	-	-	-
	Medicare Total	23,318	24,261	24,784	-	-	-
	Non Medicare Single	2,329	2,515	2,714	155	187	177
	Non Medicare Family	3,339	3,703	4,077	157	183	169
	Non Medicare Total	5,668	6,218	6,791	312	370	346
	Retiree Total	28,986	30,479	31,575	312	370	346
Plan Total		90,738	92,076	94,707	10,780	11,049	9,541

## **B. Changes in Claim Backlog**

The medical claim backlog has been relatively stable throughout Fiscal Year 2004 to current.

Month	Average Backlog	Month	Average Backlog
July 2001	68,000	July 2003	68,000
August 2001	72,000	August 2003	69,000
September 2001	81,000	September 2003	70,000
October 2001	74,000	October 2003	79,000
November 2001	97,000	November 2003	75,000
December 2001	113,000	December 2003	83,000
January 2002	80,000	January 2004	86,000
February 2002	70,000	February 2004	82,000
March 2002	72,000	March 2004	81,000
April 2002	63,000	April 2004	82,000
May 2002	71,000	May 2004	78,000
June 2002	73,000	June 2004	73,000
July 2002	93,000	July 2004	81,000
August 2002	95,000	August 2004	77,000
September 2002	85,000	September 2004	76,000
October 2002	74,000	October 2004	75,000
November 2002	68,000	November 2004	71,000
December 2002	79,000	December 2004	80,000
January 2003	88,000	January 2005	73,000
February 2003	84,000		
March 2003	86,000		
April 2003	78,000		
May 2003	72,000		
June 2003	65,000		

## **C. Trend Analysis**

CCRC Actuaries performed a detailed medical trend analysis in the report titled, "Medical Trend Report - September, 2004". This report includes a detailed trend analysis of PEIA experience by medical category and whether PEIA or Medicare was primary. Based on this analysis, we have reduced the FY 2005 Non-Medicare medical claim trend in this projection by 1.5% to 9.0%. In addition, the Medicare medical claim trend has been increased by 0.5% in FY 2005 to 8.5%. Based on PEIA's favorable prescription drug experience, we have reduced our trend assumption for all prescription drug coverages to 18.0% in FY 2005.

The current projection assumes the trends on the following chart:

Claim Type	FY 2005 Trend
Non-Medicare – Medical	9.0%
Non-Medicare – Drugs	18.0%
Medicare – Medical	8.5%
Medicare – Drugs	18.0%

In addition, we have assumed that trends will increase by 0.5% in each successive Fiscal Year beginning in FY 2006. At the Finance Board's request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The chart below summarizes the trend results observed for the plan using data through January 2005. We have not included the seven months of trend experience for Fiscal Year 2005, since the results are relatively preliminary and non-credible. It is important to note that these trends *have not* been adjusted to reflect savings as a result of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumptions detailed on the prior page.

#### **PEIA Historical Trends**

<b><u>Fiscal Year</u></b>	<b><u>Medical Medicare</u></b>	<b><u>Medical Non-Medicare</u></b>	<b><u>Drugs Medicare</u></b>	<b><u>Drugs Non-Medicare</u></b>	<b><u>Total</u></b>
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-15%	-6%
2001	6%	17%	30%	35%	20%
2002	3%	5%	19%	17%	8%
2003	3%	1%	13%	15%	5%
2004	12%	10%	13%	10%	10%



#### **D. Enrollment, Claim, Expense and Revenue Assumptions**

Using PEIA paid claim data through January 2005 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for type of Fund and Program type. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective credibility of each claim category. For example, prescription drugs claims are generally paid in the month of incurral and the most recent incurred months are credible. Conversely, medical claims take longer to be paid, so the most recent incurred months are not credible. The adjusted exposure basis weights the claim cost under each coverage type based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. It should be noted that these weights have been adjusted for this report reflecting changes in coverage costs. Based on this methodology, the projection of FY 2005 claims and expenses are summarized in the chart below. It should be noted that all of these numbers are on a per coverage basis.

<b>Fiscal Year 2005 Projection</b>			<b>Revenue</b>		<b>Expenses</b>		
<b>Fund</b>	<b>Program</b>	<b>Coverages</b>	<b>Monthly Employer Premiums</b>	<b>Monthly Employee Premiums</b>	<b>Monthly Medical Costs</b>	<b>Monthly Drug Costs</b>	<b>Monthly Capitation Costs</b>
State	PPB	54,454	\$ 508	\$ 105	\$ 332	\$ 112	
	<u>Managed Care</u>	<u>8,505</u>	\$ 490	\$ 125			\$ 422
	Total	62,959					
Local	PPB	8,507	\$ 605	\$ -	\$ 322	\$ 93	
	<u>Managed Care</u>	<u>639</u>	\$ 535	\$ -			\$ 356
	Total	9,146					
Retiree	PPB - Medicare	24,708			\$ 152	208	
	PPB – Non-Medicare	<u>6,789</u>			<u>\$ 463</u>	<u>174</u>	
	PPB - Total	31,497	\$ -	\$ 134	\$ 219	201	
	<u>Managed Care</u>	<u>337</u>	\$ -	\$ 405			\$ 862
	Total	31,834					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund.

The Finance Board approved the following plan assumptions for the forecasts found in the Appendix with respect to additional revenue in developing the Financial Plan at its meeting in December 2004.

<b>Source</b>	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>
<b>Additional State Employer Revenue</b>	\$40,000,000	\$25,000,000	\$40,000,000	\$50,000,000
<b>Additional Local Agency Revenue</b>	\$3,000,000	\$4,000,000	\$9,000,000	\$13,000,000
<b>Additional Employee Premiums</b>	\$5,700,000	\$21,800,000	\$10,000,000	\$12,500,000
<b>Additional Retiree Premiums</b>	\$4,000,000	\$10,000,000	\$16,000,000	\$21,000,000
<b>Medicare Part D Savings</b>	\$8,000,000	\$20,000,000	\$23,000,000	\$27,000,000

Additional state revenues are based on the current commitment received from the Governor for Fiscal Year 2006. Future state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance Program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from approximately \$2.5 million in FY 2005 to approximately \$4.8 million in FY 2009, based on the substantial increases in retiree premiums assumed in the financial plan.

#### **E. Provider Reimbursement Changes**

The projections assume significant savings for Medicare Part D and the Medicaid/PEIA Hospital Bill. We have assumed that Part D will save PEIA approximately \$8,000,000 in Fiscal Year 2006 and \$20,000,000 in Fiscal Year 2007 and increasing thereafter depending on Medicare enrollment and prescription drug inflation. The Medicaid/PEIA Hospital Bill has been extended for three additional years and is anticipated to result in PEIA hospital savings of approximately \$12,000,000 in Fiscal Year 2005. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

## **FISCAL YEAR 2005 FORECAST**

The financial forecast for FY 2005 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2005, projects accrued revenue of \$592,753,817 and incurred plan expenses of \$575,837,058 to produce a fiscal year surplus of \$16,916,759. This surplus was last projected to be \$11,107,857 in the Financial Plan For Fiscal Years 2005-2009 Report dated January 2005. The principal reason for the higher forecast operating results is the anticipated decrease in claim cost.

Under the Baseline Scenario, FY 2005 is projected to end with a reserve of \$156,661,973. This projected reserve meets the 10% of program expense requirement. Under the Optimistic Scenario, the ending reserve is expected to increase to \$161,531,146 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$151,818,777.

## **FISCAL YEAR 2006 FORECAST**

The financial forecast for FY 2006 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2006, projects accrued revenue of \$648,355,260 and incurred plan expenses of \$641,167,030 to produce a fiscal year surplus of \$7,188,230. This surplus was last projected to be \$585,150 in the Financial Plan For Fiscal Years 2005-2009 Report dated January 2005.

Under the Baseline Scenario, FY 2006 is projected to end with a reserve of \$163,850,203. This projected reserve meets the 10% of program expense requirement. Under the Optimistic Scenario, the ending reserve is expected to increase to \$184,129,257 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$143,430,554.

## **FISCAL YEAR 2007 FORECAST**

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007, projects accrued revenue of \$713,224,761 and incurred plan expenses of \$713,831,016 to produce a fiscal year deficit of (\$606,255). It was last projected to be (\$8,264,480) in the Financial Plan For Fiscal Years 2005-2009 Report dated January 2005.

Under the Baseline Scenario, FY 2007 is projected to end with a reserve of \$163,243,948. This projected reserve meets the 10% of program expense requirement. Under the Optimistic Scenario, the ending reserve is expected to increase to \$212,185,225 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$113,346,998.

## **FISCAL YEAR 2008 FORECAST**

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008, projects accrued revenue of \$794,459,832 and incurred plan expenses of \$811,955,202 to produce a fiscal year deficit of (\$17,495,370). It was last projected to be (\$26,402,420) in the Financial Plan For Fiscal Years 2005-2009 Report dated January 2005.

Under the Baseline Scenario, FY 2008 is projected to end with a reserve of \$145,748,578. This projected reserve meets the 10% of program expense requirement. Under the Optimistic Scenario, the ending reserve is expected to increase to \$240,064,626 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$48,370,784.

## **FISCAL YEAR 2009 FORECAST**

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009, projects accrued revenue of \$905,633,127 and incurred plan expenses of \$955,338,996 to produce a fiscal year deficit of (\$49,705,869). It was last projected to be (\$60,548,114) in the Financial Plan For Fiscal Years 2005-2009 Report dated January 2005.

Under the Baseline Scenario, FY 2009 is projected to end with a reserve of \$96,042,709. On a preliminary basis, this projected reserve does not meet the 10% of program expense requirement. Under the Optimistic Scenario, the ending reserve is expected to increase to \$259,021,405 and under the Pessimistic Scenario, the ending reserve is expected to decrease to (\$74,439,560).

## **LITIGATION**

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

## **SUMMARY**

With projected changes to the Plan as adopted in the Financial Plan by the PEIA Finance Board, we are forecasting that the Plan will meet the 10% reserve target through the projection period, with the exception of the projected ending reserve of 9% in Fiscal Year 2009, using the Baseline assumptions. These projections are based on significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drug program, can be expected to further exacerbate the difficulty of projecting future medical and drug claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the advent of a five-year projection, it should be assumed that constant modifications would be required.

## APPENDIX - BASELINE SCENARIO

### WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2005

PERIOD 7/1/2004 - 6/30/2005

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 61,801,779	\$ -	\$ 331,904,083	\$ 393,705,862
Employer Premiums - MCO	4,105,471	-	49,970,177	54,075,648
Employee Premiums - PPB	-	50,706,770	68,561,485	119,268,255
Employee Premiums - MCO	-	1,638,688	12,804,675	14,443,363
Direct Transfers	-	-	-	-
Investment Income	224,784		2,159,432	2,384,217
Retiree Subsidy Revenue		2,961,786		2,961,786
Administrative Fees	434,422		5,480,263	5,914,685
Total Revenue	\$ 66,566,456	\$ 55,307,244	\$ 470,880,116	\$ 592,753,817
<u>Program Expenses</u>				
Medical Claims	\$ 32,917,013	\$ 82,642,295	\$ 217,002,920	\$ 332,562,227
Prescription Drug Claims	9,495,011	75,924,676	73,365,429	158,785,116
Managed Care Capitations	2,732,453	3,486,871	43,080,677	49,300,000
Administration	2,485,408	2,235,581	17,929,247	22,650,236
Life Insurance	612,711	538,360	5,338,162	6,489,233
Wellness	304,581	-	2,197,189	2,501,770
Retiree Assistance Program	-	2,548,476	-	2,548,476
Director's Discretionary Fund	86,318	322,719	590,964	1,000,000
Total Expenses	\$ 48,633,494	\$ 167,698,977	\$ 359,504,587	\$ 575,837,058
Retiree Subsidy Allocations	\$ 13,920,489	\$ (112,391,732)	\$ 98,471,243	\$ -
Fiscal Year Results	\$ 4,012,472	\$ -	\$ 12,904,286	\$ 16,916,759
Beginning Plan Reserve	10,995,514	-	128,749,700	139,745,214
Ending Plan Reserve	\$ 15,007,986	\$ -	\$ 141,653,986	\$ 156,661,973

#### KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 8,000,000	<b>Claim and Other Expense Trends</b>		
Additional Local Agency Revenue	\$ 5,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ -	Non-Medicare	9.0%	18.0%
Additional Retiree Premiums	\$ -	Medicare	8.5%	18.0%
Savings from Benefit Reductions	\$ -	Capitations		5.0%
Number of Net New Retirees	1,000	Administrative Expense		8.7%

## APPENDIX - BASELINE SCENARIO

### WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2006

PERIOD 7/1/2005 - 6/30/2006

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 64,614,904	\$ -	\$ 366,669,881	\$ 431,284,785
Employer Premiums - MCO	4,292,346	-	55,204,379	59,496,725
Employee Premiums - PPB	-	56,755,842	73,364,470	130,120,312
Employee Premiums - MCO	-	1,834,175	13,701,690	15,535,865
Direct Transfers	-	-	-	-
Investment Income	270,449		2,415,239	2,685,688
Retiree Subsidy Revenue		3,317,201		3,317,201
Administrative Fees	434,422		5,480,263	5,914,685
Total Revenue	\$ 69,612,121	\$ 61,907,218	\$ 516,835,922	\$ 648,355,260
<u>Program Expenses</u>				
Medical Claims	\$ 35,894,934	\$ 93,027,797	\$ 237,742,692	\$ 366,665,423
Prescription Drug Claims	11,207,692	84,268,386	86,993,992	182,470,070
Managed Care Capitations	3,005,698	3,835,558	47,388,744	54,230,000
Administration	2,598,705	2,337,490	18,746,552	23,682,748
Life Insurance	643,347	565,278	5,605,070	6,813,695
Wellness	304,581	-	2,197,189	2,501,770
Retiree Assistance Program	-	2,803,324	-	2,803,324
Director's Discretionary Fund	171,552	645,728	1,182,720	2,000,000
Total Expenses	\$ 53,826,509	\$ 187,483,562	\$ 399,856,959	\$ 641,167,030
Retiree Subsidy Allocations	\$ 14,906,070	\$ (125,576,345)	\$ 110,670,275	\$ -
Fiscal Year Results	\$ 879,541	\$ -	\$ 6,308,689	\$ 7,188,230
Beginning Plan Reserve	15,007,986	-	141,653,986	156,661,973
Ending Plan Reserve	\$ 15,887,528	\$ -	\$ 147,962,675	\$ 163,850,203

#### KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	<b>Claim and Other Expense Trends</b>		
Additional Local Agency Revenue	\$ 3,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 5,700,000	Non-Medicare	9.5%	18.5%
Additional Retiree Premiums	\$ 4,000,000	Medicare	9.0%	18.5%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		4.6%

## APPENDIX - BASELINE SCENARIO

### WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2007

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 68,365,737	\$ -	\$ 388,398,505	\$ 456,764,242
Employer Premiums - MCO	4,541,513	-	58,475,755	63,017,268
Employee Premiums - PPB	-	69,984,015	91,733,782	161,717,797
Employee Premiums - MCO	-	2,261,669	17,132,378	19,394,047
Direct Transfers	-	-	-	-
Investment Income	268,229		2,433,229	2,701,457
Retiree Subsidy Revenue		3,715,265		3,715,265
Administrative Fees	434,422		5,480,263	5,914,685
Total Revenue	\$ 73,609,901	\$ 75,960,949	\$ 563,653,912	\$ 713,224,761
<u>Program Expenses</u>				
Medical Claims	\$ 39,403,449	\$ 105,260,478	\$ 260,980,614	\$ 405,644,541
Prescription Drug Claims	13,312,237	92,604,768	103,329,446	209,246,451
Managed Care Capitations	3,306,268	4,219,114	52,127,618	59,653,000
Administration	2,662,802	2,395,145	19,208,938	24,266,885
Life Insurance	675,514	593,542	5,885,324	7,154,380
Wellness	304,581	-	2,197,189	2,501,770
Retiree Assistance Program	-	3,363,989	-	3,363,989
Director's Discretionary Fund	171,464	643,578	1,184,958	2,000,000
Total Expenses	\$ 59,836,314	\$ 209,080,614	\$ 444,914,087	\$ 713,831,016
Retiree Subsidy Allocations	\$ 15,376,560	\$ (133,119,666)	\$ 117,743,106	\$ -
Fiscal Year Results	\$ (1,602,974)	\$ -	\$ 996,719	\$ (606,255)
Beginning Plan Reserve	15,887,528	-	147,962,675	163,850,203
Ending Plan Reserve	\$ 14,284,554	\$ -	\$ 148,959,394	\$ 163,243,948

#### KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 25,000,000	<b>Claim and Other Expense Trends</b>		
Additional Local Agency Revenue	\$ 4,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 21,800,000	Non-Medicare	10.0%	19.0%
Additional Retiree Premiums	\$ 10,000,000	Medicare	9.5%	19.0%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		2.5%

## APPENDIX - BASELINE SCENARIO

### WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2008

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 76,805,112	\$ -	\$ 423,164,303	\$ 499,969,415
Employer Premiums - MCO	5,102,138	-	63,709,957	68,812,095
Employee Premiums - PPB	-	90,623,373	100,160,072	190,783,445
Employee Premiums - MCO	-	2,928,670	18,706,088	21,634,758
Direct Transfers	-	-	-	-
Investment Income	279,696		2,904,642	3,184,338
Retiree Subsidy Revenue		4,161,096		4,161,096
Administrative Fees	434,422		5,480,263	5,914,685
Total Revenue	\$ 82,621,368	\$ 97,713,139	\$ 614,125,325	\$ 794,459,832
<u>Program Expenses</u>				
Medical Claims	\$ 43,451,992	\$ 119,527,599	\$ 287,795,301	\$ 450,774,891
Prescription Drug Claims	15,878,550	114,903,429	123,249,147	254,031,126
Managed Care Capitations	3,636,895	4,641,025	57,340,380	65,618,300
Administration	2,795,942	2,514,902	20,169,385	25,480,229
Life Insurance	709,290	623,219	6,179,590	7,512,099
Wellness	304,581	-	2,197,189	2,501,770
Retiree Assistance Program	-	4,036,787	-	4,036,787
Director's Discretionary Fund	168,360	665,236	1,166,404	2,000,000
Total Expenses	\$ 66,945,610	\$ 246,912,196	\$ 498,097,396	\$ 811,955,202
Retiree Subsidy Allocations	\$ 17,692,269	\$ (149,199,057)	\$ 131,506,787	\$ -
Fiscal Year Results	\$ (2,016,511)	\$ -	\$ (15,478,859)	\$ (17,495,370)
Beginning Plan Reserve	14,284,554	-	148,959,394	163,243,948
Ending Plan Reserve	\$ 12,268,042	\$ -	\$ 133,480,536	\$ 145,748,578

#### KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	<b>Claim and Other Expense Trends</b>		
Additional Local Agency Revenue	\$ 9,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 10,000,000	Non-Medicare	10.5%	19.5%
Additional Retiree Premiums	\$ 16,000,000	Medicare	10.0%	19.5%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%



## APPENDIX - BASELINE SCENARIO

### WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2009

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 88,995,321	\$ -	\$ 466,621,550	\$ 555,616,871
Employer Premiums - MCO	5,911,929	-	70,252,710	76,164,639
Employee Premiums - PPB	-	118,138,873	110,692,934	228,831,807
Employee Premiums - MCO	-	3,817,887	20,673,226	24,491,113
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	299,336	-	3,654,248	3,953,584
Retiree Subsidy Revenue	-	4,660,428	-	4,660,428
Administrative Fees	434,422	-	5,480,263	5,914,685
Total Revenue	\$ 95,641,008	\$ 126,617,188	\$ 683,374,931	\$ 905,633,127
<u>Program Expenses</u>				
Medical Claims	\$ 48,133,847	\$ 140,792,733	\$ 341,120,928	\$ 530,047,508
Prescription Drug Claims	19,019,015	142,479,085	147,625,399	309,123,499
Managed Care Capitations	4,000,585	5,105,128	63,074,418	72,180,131
Administration	2,935,739	2,640,647	21,177,854	26,754,240
Life Insurance	744,755	654,380	6,488,570	7,887,705
Wellness	304,581	-	2,197,189	2,501,770
Retiree Assistance Program	-	4,844,144	-	4,844,144
Director's Discretionary Fund	160,046	675,123	1,164,831	2,000,000
Total Expenses	\$ 75,298,567	\$ 297,191,240	\$ 582,849,189	\$ 955,338,996
Retiree Subsidy Allocations	\$ 20,941,644	\$ (170,574,052)	\$ 149,632,408	\$ -
Fiscal Year Results	\$ (599,203)	\$ -	\$ (49,106,666)	\$ (49,705,869)
Beginning Plan Reserve	12,268,042	-	133,480,536	145,748,578
Ending Plan Reserve	\$ 11,668,840	\$ -	\$ 84,373,869	\$ 96,042,709

#### KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 50,000,000	<b>Claim and Other Expense Trends</b>		
Additional Local Agency Revenue	\$ 13,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 12,500,000	Non-Medicare	11.0%	20.0%
Additional Retiree Premiums	\$ 21,000,000	Medicare	10.5%	20.0%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%